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C O N F I D E N T I A L SECTION 01 OF 04 BEIJING 000356

SIPDIS

TREASURY FOR OIA CWINSHIP AND TTYANG  
NSC FOR LOI

E.O. 12958: DECL: 02/11/2029  
TAGS: [ECON](#) [EFIN](#) [EAGR](#) [PGOV](#) [SOCI](#) [CH](#)  
SUBJECT: THE ECONOMIC SLOWDOWN AND RURAL CHINA: BEIJING  
PERSPECTIVES

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CABLE HAS BEEN CANCELLED FOR ALL 4 SECTIONS.  
NEW CABLE WILL BE SENT UNDER NEW MRN/MCN.

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Development Institute Professor Li Renqing said local social services often do not reach those in need and institutions needed to effectively distribute Government assistance are weak. Li is also concerned that the benefits from increased infrastructure spending will go to large state-owned enterprises and not agriculture and small and medium-sized enterprises (SMEs).

14. (C) Liu Dongwen, Deputy Executive Director of the China Foundation for Poverty Alleviation (CFPA), an NGO affiliated with the State Council Leading Group on Poverty Alleviation and Development (LGOP), said he is worried that the fiscal stimulus package will not help lower-income rural residents. Liu also doubts that local governments will be able to achieve their spending targets under the Government's fiscal stimulus package because fiscal revenue from land transfers and sales, a major source of local government income, is being limited by new land use regulations (Refs F, G). (Note: The Ministry of Finance has announced it will start issuing bonds on behalf of local governments, but it is unclear when issuance of these bonds will begin. End Note.) Liu also complained that what official media claims are "new measures" by some local governments to extend guaranteed loans to unemployed migrant workers, have actually been around for years and, like most micro- and small-scale lending programs in China, are not well-managed or very effective.

15. (C) Christ Spohr (strictly protect), Social Sector

Economist

at the Asian Development Bank's China Office, told Econoff he would prefer that more of the Government stimulus efforts go into building human resources and addressing social welfare issues and poverty reduction efforts. World Bank China Country Director David Dollar wrote publicly January 14 that infrastructure projects announced so far "may take some time to get going and will not help the large numbers of workers losing their jobs in the export sectors." Dollar also argues against "fighting the last war" with more spending on infrastructure "that is basically excellent," and advocates spending on social services and housing for migrants moving to the cities, on railroads, and on environmental protection, all current bottlenecks in the economy.

¶6. (C) World Bank Rural Sector Coordinator for China Sari Soderstrom (strictly protect) told Econoff on February 6 that she is worried about the absorptive capacity of local governments receiving fiscal stimulus funds. At the moment, according to Soderstrom, in the push to "get the money out the door" local governments are being held accountable for spending money, not for results. Soderstrom is worried about the "software" and institutional constraints facing rural development efforts, and is concerned that addressing them, which will require time and effort, is not a priority of the Government's stimulus efforts. According to Soderstrom, no one will care about how effectively funds for boosting rural consumption are spent until we see large farmer uprisings, which she thinks are on the way.

¶7. (C) Li Zhiying (strictly protect) from the Empowerment and Rights Institute, a local NGO, observed in a meeting with Emboffs on January 15 that government training and other programs in response to the financial crisis will not increase incomes.

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Rather, these programs are politically motivated because the Government knows it must show that it cares and is working for the people. Li argued that government programs aimed at encouraging returning migrant workers to start small businesses likewise would not increase incomes, since migrants left their villages in the first place because they lacked job opportunities. Li said these policies are only designed to show the government is doing something. "The government is not stupid" Li said.

Official Poverty Fighters Feeling the Squeeze  
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¶8. (C) On January 15 LGOP Deputy Director for International Cooperation explained to Econoff that companies taking advantage of LGOP's preferential programs are actually not expanding their businesses or making investments to create jobs in poor areas as required. Liu, who also directs CFP's Microfinance Department,

said that the global financial crisis is affecting his fund-raising for microfinance programs because CFPA obtains its capital via wholesale loans from banks that are now short of funds themselves. He also worried about default rates because microfinance borrowers sometimes go to Rural Credit Cooperatives (RCC) and other rural financial institutions to borrow money to cover payments on microfinance loans, and in some cases RCC's may be limiting their lending to small-scale borrowers. Families taking out microfinance loans often have a family member who is a migrant worker, and if they lose their job, the loans may be in danger of going into default. Liu also cited falling agricultural commodity prices as hurting farmers' income and ability to repay loans. Although the impact of these factors has been limited so far, Liu expects it to get worse in 2009. In response, CFPA is evaluating the credit worthiness of borrowers more carefully and limiting the size of loans while at the same time working with customers who fall on hard times to prevent defaults.

#### But Still Not Too Alarmed About Rural Stability

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19. (C) LGOP's Tan Weiping gave his personal opinion that migrant workers are not a big concern to the Government because they have land, which can ensure their livelihood even if they have to accept a lower standard of living. He did not expect any significant instability resulting from the global financial crisis. He insisted that infrastructure projects included in the stimulus plan will all require labor and raw materials, meaning unemployment should not dramatically increase. He argued that the rural economy is much healthier than it was 10 or 20 years ago, and rural residents are now very savvy and knowledgeable about how to navigate China's modern market economy to find jobs and make a living. Li Ping (strictly protect), a rural land expert at the U.S.-based Rural Development Institute's Beijing office, speculates that the threat of instability among returnees may not be immediate due to recent economic good times and the fact that rural residents still possess land. However, after six months or so, many returned migrant laborers who initially

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will live comfortably as upper middle class residents of their village will see their savings run out and will no longer be satisfied "taking a break" from their work in the cities.

10. (C) In a January 6 meeting with Econoff, CASS Rural Development Institute's Yu Jianrong (strictly protect), an expert on rural social conflict, insisted that rural conflict is already occurring nationwide and on a daily basis due to a myriad of reasons. However, Yu said, the potential for increased rural unrest is limited to migrant laborers who return home to

rural  
communities but no longer have family land from which to earn  
a  
living. Another possible source of unrest is students from  
rural  
areas who previously stayed in urban areas after graduating  
but  
may now be forced to return home. Many of these students  
have  
accumulated considerable debt while in school, and are often  
not  
willing to return to rural China, according to Yu.

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